



*Financial Affairs Committee*  
**February 16, 2001**

**1. Participants**

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|-------------------------------|---------------------------------------|
| --Brice Bledsoe, CCWD         | --Kathryn Kitchell, City of Roseville |
| --Lee Emrick, Colusa CWD      | --Tona Mederios, SLDMWA               |
| --Mike Finnegan, BOR          | --Dennis Michum, GCID                 |
| --Mike Hagman, TCCA           | --Jesus Reynoso, BOR                  |
| --Russell Harrington, WWD     | --George Senn, CVPWA                  |
| --Chase Hurley, Panoche WD    | --Robert Stackhouse, CVPWA            |
| --Lynn Hurley, SCVWD          | --Gloria Starkovich, FWUA             |
| --Ron Jacobsma, FWUA          | --Henry Rodegerdts, CFB               |
| --Stuart Robinson, Consultant |                                       |

**Call-in Participants**

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|---------------------------------|--------------------------------|
| --Mark Atlas, TCCA              | --David Coxey, San Luis WD     |
| --Thomas Berliner, SCVWD        | --Anthea Hansen, Del Puerto WD |
| --Art Bullock, TCCA             | --Pat Wiemiller, Fresno ID     |
| --Gene Carson, W. Stanislaus ID |                                |

**Guest Speaker**

- Howard Hirahara, WAPA

**2. Opening Business**

The February meeting was held in the ACWA Office Boardroom, 910 K Street, Sacramento. The meeting began at 9:30 a.m.

The next Financial Affairs Committee meeting will be held on **March 23 at 9:30 a.m. in the ACWA Office Boardroom, 910 K Street, Sacramento.**

**3. Reclamation Reports.**

--*Update on Status of 2000 Final Accountings.* Mike Finnegan reported that the Interior OIG has completed its audit of the CVP Financial Statements and the Bureau is now in the process of wrapping up the fiscal year 2000 final accountings and

allocations by cost component and contractor. The Bureau expects to complete the process by the end of March.

**--Update on the BOR WORKS-R Development Project.** Mike Finnegan reported that JAVIS, the contractor that is developing the new water accounting program, is on schedule. JAVIS has completed Build 1, which includes internal design, working screens, etc, primarily for internal needs of BOR staff. Build 2, which migrates Build 1 into Reclamation's systems for use throughout Reclamation is scheduled for completion in June 2001. Build 3, which will be Web-enabled (internet), will be available for contractor use by October 1, 2001. Mike emphasized the importance of contractor participation during this phase of the project development. He will be scheduling contractor involvement meetings to ensure that the contractors get what they want and need from this project—he hopes to implement Build 3 on a partnership basis. All historical water accounting and delivery data will be migrated into the new system.

3. **Direct Funding Agreements.** Ron Jacobsma reported that the FWUA and the SLDMWA met with Reclamation on February 14 to discuss problems with and continue resolution of concerns with the existing direct funding agreements (TCCA participated by telephone). Reclamation has determined the current method of handling contractor payments is not in compliance with Treasury Regulations, and as such, the authorities must revise the way payments are processed and the direct funding agreements must be appropriately amended. Items discussed included: the advantages of direct funding of O&M rather than funding through federal appropriations, revisions needed in the payment collection process, timely funding by the Bureau of O&M collections (shortfalls due to fixed rate contracts or defaults), and need for an accounting process flow chart and write-up (perhaps an SOP for collections and accounting). The transfer agreement will require some modification to address the proposed revised fiscal agency process as well as referencing or incorporating a "service agreement" concept that will provide funding in the event of defaults or deficiencies of water contractor payments to the Authorities. The contract modifications, revised fiscal agency process, and accounting process flowchart will be developed in the next few weeks. The affected water contractors will be notified accordingly as the issues and impacts become better defined.
4. **Central Valley Project Cost Reallocation.** Ron reported that Reclamation held a public meeting on February 9 to unveil its preferred CVP Cost Reallocation alternative. To select the preferred alternative, Reclamation evaluated a contractor-proposed cost allocation alternative, a GAO-prepared alternative, and its current cost allocation methodology using evaluation criteria developed by Reclamation with water and power contractor input. Reclamation's current cost allocation methodology most closely met the evaluation criteria and was selected as the preferred alternative. Reclamation is allowing the public 30 days to submit comments relative to the cost allocation evaluation process. The FAC will submit comments focusing on the merits of the contractor proposed methodology and why we believe it meets the evaluation criteria.

5. **Arroyo Pasajero Project.** Russell Harrington, Westlands WD and Alan Thompson, EBMUD have been looking into a proposed new alternative for the Arroyo Pasajero Project—the Westside Detention Basin with Tulare Lakebed Flood Storage. Russell reported that there are actually two new Arroyo Pasajero project alternatives under consideration, however the primary alternative being pursued by DWR is the Tulare Lakebed Alternative. DWR is actively pushing this project because it found that it could be liable for as much as \$100 million in legal damages as a result of future Arroyo Pasajero flooding. It has been projected that if both the Corps of Engineers and the State Reclamation Board were to participate in the project, CVP water contractors could expect a capital rate increase of about \$0.10 per AF. In addition, annual O&M costs would most likely increase as well. Russell mentioned that the Corps of Engineers probably wouldn't accept the project without positive feedback from all potential stakeholders—and to date both CVP Contractors and SWP Contractors have voiced opposition to an Arroyo Pasajero project.

Russell cautioned that sooner or later DWR could be forced to complete the project independent of CVP Contractor consent, and could try to present the BOR with 45% of the bill. He said that if it is possible that the DWR could successfully do this, the CVP Contractors might be better served to push an Arroyo Pasajero solution now. He continued that if it were not likely that the DWR could successfully present the CVP with a bill for an Arroyo Pasajero project the water contractors would probably be better served to oppose an Arroyo Pasajero project. Russell will keep the FAC informed of any future developments.

6. **WAPA/PG&E Power Contract Issue Briefing.** Howard Hirahara, Power Marketing Manager for WAPA briefed the group on the potential impact of a filing by PG&E with FERC, under Section 205 of the Federal Power Act, to amend, adjust, or terminate its current contract with WAPA. As of February 16, PG&E had not yet filed but is expected to do so by the end of the month. In essence, the WAPA/PG&E contract allows PG&E to take and sell excess power produced by the CVP early in the water year and requires it to provide the CVP with power later in the year when the CVP is not able to produce enough to meet its pumping needs. Over the years PG&E has been able to provide power back to the CVP at a cost less than what it made off the sale of the power it got earlier in the year. Now, with energy prices skyrocketing, PG&E has to buy power at excessively high costs in order to provide power back to the CVP when it needs it. PG&E wants FERC to allow it to pass on these higher costs to WAPA, which in turn would have to pass them on to the CVP water and power users.

Although WAPA feels confident that PG&E will not prevail in this filing, it is rallying its customers to prepare statements as to the effect huge rate increases would have on its customers and local economies. WAPA feels that FERC could do one of three things—reject the filing because it does not have merit, accept the filing but delay rate implementation for up to 5 months, or accept the filing and let the increased rates go into effect, subject to refunds. One other possibility exists—PG&E could go bankrupt and WAPA would have to go out on the market and purchase its

power—probably at a high cost.

Stuart Robertson, a private consultant actively involved in this issue, said that he represents several water user groups trying to deal with this issue. He said that they have developed a three-tiered approach to deal with the issue—rallying state legislators, rallying legislative actions in Washington, DC, and rallying to intervene FERC and WAPA. He said that once PG&E files with FERC, WAPA has two weeks to respond to the filing. After the filing, WAPA can provide its customers with advice on how to deal with the issue. Brice Bledsoe suggested that we monitor the situation and decide a course of action after PG&E files. The CVPWA will continue discussions with Mr. Robertson and expects to hire him to help CVPWA members in understanding and coping with this issue.

7. **FAC/BOR Issue Strategy Session.** Ron Jacobsma reported that he and Brice Bledsoe met with Mike Finnegan on February 15 to discuss the important issues that face the FAC over the near and long-term and to come up with a process in which we can work together in a collaborative manner to work out solutions. It was agreed that an interest-driven, issue-based approach would best serve the FAC/BOR commitment to work together to solve the myriad of issues that arise. It was also agreed that we would work to accomplish our goals and objectives in a non-public forum, i.e. through discussions and interaction with Bureau staff rather than through letters.

The question came up as to whether monthly updates of issues was really the best use of the FAC time and resources. It was agreed that the FAC could be a more active, problem-solving group if we could coincide the FAC meetings with “working” meetings on FAC issues. It was suggested that we schedule a workshop to learn more about interest-driven, issue-based methods for problem solving.

It was suggested that the FAC should focus its efforts on the more pressing issues while keeping an eye on other less pressing ones. The group identified the four most important pressing issues that are facing us today—PUE issues (PG&E, post 2004 CVP power operations, etc.), CVP capital rate setting, Restoration Fund offset accounting, and Water Marketing rate escalation.

8. **FAC Committee Structure.** Following up on ongoing discussions the group has had during the past six months concerning a revised FAC structure, the group selected members to fill three newly created vice-chair positions and unanimously approved Ron Jacobsma’s retention as the FAC Chair-person. Chase Hurley was elected as the Vice-chair representing Agricultural interests, Alan Thompson representing M&I interests, and Ed Roman representing Power interests. The positions are for two-year terms with no term limits. The restructuring will be formalized into a written document that will be presented to the CVPWA Board of Directors for formal approval.